

# **NORTHWEST SCHOOL DISTRICT**



**Jackson, Michigan**

## **FINANCIAL STATEMENTS**

**For The Year Ended June 30, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

# NORTHWEST SCHOOL DISTRICT

For the Year Ended June 30, 2008

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

October 8, 2008

Board of Education  
Northwest School District  
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **NORTHWEST SCHOOL DISTRICT**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of **Northwest School Districts'** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Northwest School District** as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2008 on our consideration of the **Northwest School District's** internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Northwest School District's*** basic financial statements. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the ***Northwest School District***. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of the ***Northwest School District***. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## **Northwest Community Schools Management's Discussion & Analysis**

As management of Northwest Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year that ended June 30, 2008.

### **Financial Highlights**

- ❑ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$8,875,258 (net assets). Of this amount, \$2,340,987 (unrestricted net assets) may be used to meet the government's ongoing obligations for district programs.
- ❑ The government's total net assets increased by \$1,037,470.
- ❑ As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,275,519, an increase of \$1,149,377 in comparison with the prior year. Approximately 80% or \$3,422,577 is available for spending at the government's discretion (Unreserved fund balance.)
- ❑ At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,339,239 or 9.23% percent of total general fund expenditures.
- ❑ Investments for the future were made by the spending of approximately \$126,000 on school facilities improvements, vehicles, and equipment.

### **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

This report also contains other supplementary information in addition to the basic financial statements.

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to the private business sector.

The statement of net assets presents information on all of the District's assets and liabilities, with difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported, as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the district include instruction, support services, food services, athletics, and community service. The District had no business-type activities as of and for the year ending June 30, 2008.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

## **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may get a better understanding of the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides, a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Capital Projects funds, each of which are considered to be a major fund. Data from the six other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its General and Special Revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

## **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the Fund Financial Statement section.

## **Other Information**

The combining statements, referred to earlier, in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found following the Notes to the Financial Statement section.



## Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$8,875,258 at the close of the most recent fiscal year.

A portion of the District's net assets (60.5%) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### District's Net Assets

	<b><u>Governmental Activities 2006-2007</u></b>	<b><u>Governmental Activities 2007-2008</u></b>
Current and Other Assets	\$ 9,133,774	\$ 9,659,257
Capital Assets, Net	7,572,489	7,145,069
<b>Total Assets</b>	<b>16,706,263</b>	<b>16,804,326</b>
Current Liabilities Outstanding	6,323,925	5,691,035
Other Liabilities	2,544,550	2,238,033
<b>Total Liabilities</b>	<b>8,868,475</b>	<b>7,929,068</b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	5,504,833	5,367,766
Restricted	259,575	1,166,505
Unrestricted	2,073,380	2,340,987
<b>Total Net Assets</b>	<b>\$ 7,837,788</b>	<b>\$ 8,875,258</b>

An additional portion of the District's net assets (13.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (26.4% or \$2,340,987) may be used to meet the government's ongoing obligations to its programs.

At the end of the current fiscal year, the District was able to report positive balances in the two categories of net assets, both for the government as a whole, as well as for its separate governmental-type activities.

The government's net assets increased by \$1,037,470 during the current fiscal year.

### District Changes in Net Assets

Revenue	<u>Governmental Activities</u>	
	<u>2006-2007</u>	<u>2007-2008</u>
<b>General Revenue:</b>		
Property Taxes	\$ 3,417,657	\$ 3,584,399
State School Aid	19,442,996	18,347,487
Grants & contributions-not Restricted to Specific Programs	2,032,933	2,041,665
Other	178,664	227,277
<b>Total Revenue</b>	<b>25,072,250</b>	<b>24,200,828</b>
<b>Expenses:</b>		
Instruction	15,190,257	13,476,995
Support Services	8,973,230	9,029,014
Food Service	11,864	(38,280)
Athletics	276,791	253,675
Community Service	(55,457)	(21,392)
Depreciation- Unallocated	400,510	387,658
Interest on Long-Term Debt	68,967	75,688
<b>Total Expenses</b>	<b>24,866,162</b>	<b>23,163,358</b>
<b>Increase in Net Assets</b>	<b>206,088</b>	<b>1,037,470</b>
Net Assets, Beginning of Fiscal Year	7,631,700	7,837,788
<b>Net Assets, End of Fiscal Year</b>	<b>\$ 7,837,788</b>	<b>\$ 8,875,258</b>

### Governmental Activities

Net assets increased approximately \$1,037,470. Some key elements of this increase are as follows:

- ❑ Long term debt and capital outlay payments were an expense in the Fund Level reports but not in the Governmental Wide Financial statements.

## **Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds:** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,275,519 an increase of \$1,149,377 in comparison with the prior year. Approximately 80% of this total amount (3.423 million) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that is not available for new spending because the underlying assets are included in inventory and prepaid items or reserved for debt retirement, and is not available for current expenditure.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,339,239 while total fund balance was \$3,109,014. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 9.2% and 12.3% of total General Fund expenditures.

The fund balance of the District's General Fund increased by \$489,963 during the current fiscal year.

The Capital Projects fund incurred approximately \$324,000 in improvement projects during the year. An operating transfer was made of \$939,500, leaving a fund balance of \$865,078.

## **General Fund Budgetary Highlights**

Differences between the original and final amended budgets allows for a worse case scenario. Once additional information was known, including pupil counts and the foundation allowance amount for 2007-2008, subsequent budget amendments recognized an increase in revenues, along with a corresponding increase in planned expenditures to various District programs.

## Capital Asset and Debt Administration

### Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$7,145,069 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was 6.0% (all in governmental activities).

Major capital asset events during the current fiscal year included the following:

- Approximately \$125,923 for building improvement projects, such as facilities improvements and other technology projects.

#### District's Capital Assets (Net of Depreciation)

		2007	2008
Land and land improvements	\$	1,145,527	\$ 1,129,968
Buildings		5,059,256	4,884,852
Vehicles		828,077	662,392
Equipment		539,629	467,857
<b>Total Capital Assets</b>	<b>\$</b>	<b>7,572,489</b>	<b>\$ 7,145,069</b>

Additional information on the District's capital assets can be found in Note III-C of the Notes to this report.

### Long-Term Debt

At the end of the current fiscal year, the District had total bonded debt outstanding of \$1,459,127. Additionally, the District has capital leases payable outstanding at June 30, 2008, of \$467,303. Voluntary retirement incentive, severance pay, and sick leave payable amounts to \$760,998 at June 30, 2008.

Additional information in the District's long-term debt can be found in Note III-F of the Notes to this report.

## **Factors Bearing on the District's Future**

The following factors were considered in preparing the District's budget for the 2008-2009 fiscal year:

- ❑ An increase in the foundation allowance (estimated at \$7,279).
- ❑ Cuts in certain budget areas remain in place in anticipation of a continuation of the financial pinch in 2008-2009.

## **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 4000 Van Horn Road, Jackson, Michigan 49201.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

# NORTHWEST SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 798,137
Investments	3,879,640
Accounts receivable	193,211
Due from other governmental units	3,954,631
Prepaid items and other assets	833,638
Total current assets	<u>9,659,257</u>
Noncurrent assets:	
Capital assets not being depreciated	706,777
Capital assets being depreciated	18,162,547
Less accumulated depreciation	(11,724,255)
Total noncurrent assets	<u>7,145,069</u>
Total assets	<u>16,804,326</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and accrued liabilities	355,321
Note payable	2,200,000
Salaries payable	2,589,308
Due to other governmental units	71,469
Unearned revenue	25,542
Current portion of long-term obligations	408,149
Current portion of accrued severance and sick leave payable	41,246
Total current liabilities	<u>5,691,035</u>
Noncurrent liabilities	
Noncurrent portion of long-term obligations	1,518,281
Accrued severance and sick leave payable	719,752
Total noncurrent liabilities	<u>2,238,033</u>
Total liabilities	<u>7,929,068</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	5,367,766
Restricted for:	
Debt service	19,304
Capital projects	865,078
Other purposes	282,123
Unrestricted	<u>2,340,987</u>
Total net assets	<u>\$ 8,875,258</u>

The accompanying notes are an integral part of these financial statements.



**NORTHWEST SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Basic programs	\$ 11,820,191	\$ -	\$ -	\$ -	\$ (11,820,191)
Added needs:					
Special education	3,185,579	-	1,418,789	-	(1,766,790)
Other added needs	1,190,698	-	1,291,989	8,695	109,986
Total instruction	16,196,468	-	2,710,778	8,695	(13,476,995)
Support services:					
Pupil	1,097,344	-	-	-	(1,097,344)
Instructional services	275,467	-	2,327	-	(273,140)
General administration	1,231,670	-	-	-	(1,231,670)
School administration	1,818,187	-	-	-	(1,818,187)
Business	176,342	-	-	-	(176,342)
Maintenance	2,614,599	-	-	-	(2,614,599)
Transportation	1,817,732	-	-	-	(1,817,732)
Total support services	9,031,341	-	2,327	-	(9,029,014)
Athletics	380,265	126,590	-	-	(253,675)
Bookstore	2,854	3,473	-	-	619
Child care activities	358,509	375,147	4,135	-	20,773
Food service	1,093,304	584,889	546,695	-	38,280
Depreciation - unallocated	387,658	-	-	-	(387,658)
Interest on long-term debt	75,688	-	-	-	(75,688)
Total governmental activities	\$ 27,526,087	\$ 1,090,099	\$ 3,263,935	\$ 8,695	\$ (23,163,358)

The accompanying notes are an integral part of these financial statements.

**NORTHWEST SCHOOL DISTRICT**  
**Statement of Activities (concluded)**  
**For the Year Ended June 30, 2008**

	<b>Governmental Activities</b>
<b>Changes in net assets</b>	
Net (expense) revenue	<u>\$ (23,163,358)</u>
General revenues:	
Property taxes	3,584,399
State school aid	18,347,487
Grants and contributions not restricted to specific programs	2,041,665
Unrestricted investment earnings	<u>227,277</u>
Total general revenues	<u>24,200,828</u>
Change in net assets	1,037,470
Net assets, beginning of year	<u>7,837,788</u>
<b>Net assets, end of year</b>	<u><u>\$ 8,875,258</u></u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

**NORTHWEST SCHOOL DISTRICT**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	<b>General Fund</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 23,116	\$ 747,967	\$ 27,054	\$ 798,137
Investments	3,610,687	117,111	151,842	3,879,640
Delinquent taxes receivable	79,011	-	-	79,011
Accounts receivable	114,200	-	-	114,200
Due from other governmental units	3,729,644	-	224,987	3,954,631
Inventories	164,613	-	63,863	228,476
Prepays	605,162	-	-	605,162
<b><u>TOTAL ASSETS</u></b>	<b>\$ 8,326,433</b>	<b>\$ 865,078</b>	<b>\$ 467,746</b>	<b>\$ 9,659,257</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 152,369	\$ -	\$ -	\$ 152,369
Salaries payable	2,589,308	-	-	2,589,308
Property taxes payable	151,573	-	-	151,573
Severance pay, sick leave and retirement incentive payable	44,350	-	-	44,350
Due to other governmental units	71,469	-	-	71,469
Deferred revenue	8,350	-	166,319	174,669
Notes payable	2,200,000	-	-	2,200,000
Total liabilities	5,217,419	-	166,319	5,383,738
<b>Fund Balances</b>				
Reserved for inventories and prepaid items	634,035	-	63,863	697,898
Reserved for debt service	-	-	19,304	19,304
Reserved for other purposes	135,740	-	-	135,740
Unreserved, undesignated, reported in:				
General fund	2,339,239	-	-	2,339,239
Special revenue funds	-	-	218,260	218,260
Capital projects fund	-	865,078	-	865,078
Total fund balances	3,109,014	865,078	301,427	4,275,519
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 8,326,433</b>	<b>\$ 865,078</b>	<b>\$ 467,746</b>	<b>\$ 9,659,257</b>

The accompanying notes are an integral part of these financial statements.

**NORTHWEST SCHOOL DISTRICT**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2008**

Fund balances - total governmental funds	\$	4,275,519
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets		18,869,324
Deduct: accumulated depreciation		(11,724,255)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term Durant Settlement receivable		149,127
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable		(1,459,127)
Deduct: capital leases payable		(467,303)
Deduct: accrued interest on bonds payable		(7,029)
Deduct: compensated absences, retirement incentives, and severance pay		(760,998)

Net assets of governmental activities	\$	8,875,258
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The accompanying notes are an integral part of these financial statements.

**NORTHWEST SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources:				
Property taxes	\$ 3,584,400	\$ -	\$ -	\$ 3,584,400
Other local sources	2,258,529	8,395	921,837	3,188,761
State sources	20,387,341	-	186,023	20,573,364
Federal sources	717,281	-	499,751	1,217,032
Total revenues	26,947,551	8,395	1,607,611	28,563,557
<b>Expenditures</b>				
Instruction:				
Basic programs	11,877,946	-	-	11,877,946
Added needs:				
Special education	3,185,579	-	-	3,185,579
Other added needs	1,190,698	-	-	1,190,698
Total instruction	16,254,223	-	-	16,254,223
Support services:				
Pupil	1,097,344	-	-	1,097,344
Instructional services	275,467	-	-	275,467
General administration	1,015,372	-	-	1,015,372
School administration	1,766,225	-	-	1,766,225
Business	176,342	-	-	176,342
Information Technology	268,260	-	-	268,260
Maintenance	2,408,179	-	-	2,408,179
Transportation	1,652,047	-	-	1,652,047
Total support services	8,659,236	-	-	8,659,236
Athletics	-	-	382,664	382,664
Bookstore	-	-	2,854	2,854
Child care activities	-	-	355,016	355,016
Food service	-	-	1,093,029	1,093,029
Debt service	432,468	42,921	-	475,389
Capital outlay and maintenance	-	280,971	19,206	300,177
Total expenditures	25,345,927	323,892	1,852,769	27,522,588
Revenues over (under) expenditures	1,601,624	(315,497)	(245,158)	1,040,969
<b>Other financing sources (uses)</b>				
Proceeds from capital lease	108,408	-	-	108,408
Transfers in	-	939,500	280,569	1,220,069
Transfers out	(1,220,069)	-	-	(1,220,069)
Total other financing sources (uses)	(1,111,661)	939,500	280,569	108,408
Net change in fund balances	489,963	624,003	35,411	1,149,377
Fund balances, beginning of year	2,619,051	241,075	266,016	3,126,142
<b>Fund balances, end of year</b>	<b>\$ 3,109,014</b>	<b>\$ 865,078</b>	<b>\$ 301,427</b>	<b>\$ 4,275,519</b>

The accompanying notes are an integral part of these financial statements.

**NORTHWEST SCHOOL DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2008**

Net change in fund balances - total governmental funds	\$ 1,149,377
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	125,923
Deduct: depreciation expense	(553,343)

Bond and capital lease proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds or obtaining financing through capital leases increases long-term liabilities in the statement of net assets. Repayment of bond principal or other long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct: capital lease proceeds	(108,408)
Add: principal payments on bonds	175,000
Add: payments on other long-term liabilities	223,761

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds	940
Add: decrease in compensated absences payable	24,220

Change in net assets of governmental activities	<u>\$ 1,037,470</u>
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The accompanying notes are an integral part of these financial statements.

**NORTHWEST SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2008**

	<b>Budget Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Local sources:				
Property taxes	\$ 3,838,719	\$ 4,013,393	\$ 3,584,400	\$ (428,993)
Other local sources	1,964,431	1,974,584	2,258,529	283,945
State sources	20,036,701	20,373,515	20,387,341	13,826
Federal sources	656,557	765,613	717,281	(48,332)
Total revenues	26,496,408	27,127,105	26,947,551	(179,554)
<b>Expenditures</b>				
Instruction:				
Basic programs	13,003,396	12,206,166	11,877,946	(328,220)
Added needs:				
Special education	3,218,721	3,242,127	3,185,579	(56,548)
Other added needs	230,202	1,232,923	1,190,698	(42,225)
Community enrichment	3,850	1,396	-	(1,396)
Total instruction	16,456,169	16,682,612	16,254,223	(428,389)
Support services:				
Pupil	1,068,363	1,176,121	1,097,344	(78,777)
Instructional services	277,277	279,286	275,467	(3,819)
General administration	1,216,107	1,105,337	1,015,372	(89,965)
School administration	1,803,936	1,831,541	1,766,225	(65,316)
Business	201,355	191,133	176,342	(14,791)
Information Technology	275,238	282,997	268,260	(14,737)
Maintenance	2,598,299	2,474,271	2,408,179	(66,092)
Transportation	1,682,911	1,737,888	1,652,047	(85,841)
Total support services	9,123,486	9,078,574	8,659,236	(419,338)
Debt service	445,557	432,548	432,468	(80)
Total expenditures	26,025,212	26,193,734	25,345,927	(847,807)
Revenues over (under) expenditures	471,196	933,371	1,601,624	668,253
<b>Other financing sources (uses)</b>				
Proceeds from capital leases	-	-	108,408	108,408
Transfers out	(429,552)	(1,271,752)	(1,220,069)	(51,683)
	(429,552)	(1,271,752)	(1,111,661)	160,091
Net change in fund balance	41,644	(338,381)	489,963	828,344
Fund balance, beginning of year	2,619,051	2,619,051	2,619,051	-
Fund balance, end of year	\$ 2,660,695	\$ 2,280,670	\$ 3,109,014	\$ 828,344

The accompanying notes are an integral part of these financial statements.



**NORTHWEST SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets**  
**June 30, 2008**

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$      246,506</u>
 <b>Liabilities</b>	
Due to student groups	<u>\$      246,506</u>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Northwest School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency fund, which does not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects, which are primarily funded by transfers from other funds.

Additionally, the District reports the following fund types:

The *child-care fund* accounts for the community based child care programs sponsored by the District.

The *bookstore fund* accounts for the revenues and expenditures of the school store operation.

The *food service fund* accounts for the activities of the food service operation at the various cafeteria locations. The District charges users primarily for the direct costs of this program, which is subsidized by state and federal grants.

The *athletic fund* accounts for the various athletic programs offered by the District.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

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When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

### **D. Assets, liabilities and net assets or equity**

#### **1. Deposits and investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

#### **2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

#### **3. Inventory**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Food Service Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

#### **4. Capital assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Vehicles	8
Equipment	3

### 5. *Compensated absences*

Employees are compensated for unused sick days; accordingly, a liability is recorded at fiscal year end for such unused time.

### 6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. **Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

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### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

##### *Statutory Authority*

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Asset follows:

##### **Statement of Net Assets:**

Cash and cash equivalents	\$ 798,137
Investments	<u>3,879,640</u>
	4,677,777

##### **Statement of Fiduciary Net Assets:**

Agency Fund:	
Cash and cash equivalents	<u>246,506</u>
	<b><u>\$ 4,924,283</u></b>

Bank deposits	\$ 23,232
Cash on hand	9,200
Investments in securities, mutual funds, and similar vehicles	<u>4,891,851</u>
	<b><u>\$ 4,924,283</u></b>

State statutes authorize the District to invest in:

- a) Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d) Bankers acceptances of United States banks.
- e) Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f) Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g) External investment pools as authorized by Public Act 20 as amended through 12/31/97.

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

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The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Comerica School/Cash Investment Fund	n/a	\$ 4,875,609	Not rated
Michigan Liquid Asset Fund	n/a	<u>16,242</u>	S&P – AAAm
		<u><b>\$ 4,891,851</b></u>	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, the District's bank balances totaling \$23,232 were FDIC insured.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The investments listed above are not subject to custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.



# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

### B. Receivables

Receivables in the governmental activities are 95% due from other governments and 5% other receivables and delinquent taxes receivable.

### C. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 706,777	\$ -	\$ -	\$ 706,777
Capital assets being depreciated				
Land improvements	466,755	-	-	466,755
Buildings and improvements	12,974,742	92,388	-	13,067,130
Vehicles	2,634,205	-	159,908	2,474,297
Equipment	2,120,830	33,535	-	2,154,365
Total capital assets being depreciated	18,196,532	125,923	159,908	18,162,547
Less accumulated depreciation for:				
Land improvements	28,005	15,559	-	43,564
Buildings and improvements	7,915,486	266,792	-	8,182,278
Vehicles	1,806,128	165,685	159,908	1,811,905
Equipment	1,581,201	105,307	-	1,686,508
Total accumulated depreciation	11,330,820	553,343	159,908	11,724,255
Total capital assets being depreciated, net	6,865,712	(427,420)	-	6,438,292
<b>Governmental activities capital assets, net</b>	<b>\$ 7,572,489</b>	<b>\$ (427,420)</b>	<b>\$ -</b>	<b>\$ 7,145,069</b>

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

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Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

Support Services:

Transportation	\$ 165,685
Depreciation - unallocated	<u>387,658</u>

<b>Total depreciation expense – governmental activities</b>	<b><u>\$ 553,343</u></b>
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**D. Payables**

Accounts and accrued liabilities (all governmental activities) are 2% owed to other governmental units, 12% owed to vendors, 77% owed as a short-term note, and 9% owed to others.

**E. Interfund receivables, payables and transfers**

At June 30, 2008, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 1,220,069	\$ -
Capital Projects Fund	-	939,500
Nonmajor governmental funds	<u>-</u>	<u>280,569</u>
	<b><u>\$ 1,220,069</u></b>	<b><u>\$ 1,220,069</u></b>

The District often reports interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At June 30, 2008, there were no interfund balances.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

### F. Long-term debt

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable	\$ 1,634,127	\$ -	\$ 175,000	\$ 1,459,127	\$ 195,512
Capital leases payable	582,656	108,408	223,761	467,303	212,637
Voluntary retirement incentive payable	28,917	-	8,700	20,217	11,246
Severance pay payable	302,350	-	10,450	291,900	25,000
Sick leave payable	453,951	-	5,070	448,881	5,000
	<u><u>\$ 3,002,001</u></u>	<u><u>\$ 108,408</u></u>	<u><u>\$ 422,981</u></u>	<u><u>\$ 2,687,428</u></u>	<u><u>\$ 449,395</u></u>

Long-term debt of the District consists of the following:

Bonds payable consist of the following issues:

\$278,720, 1998 Durant funding general obligation bonds payable in annual installments through May 2013; interest at 4.76%	\$ 149,127
\$1,350,000, 2003 Energy Conservation general obligation bonds payable in annual installments through May 1, 2013; interest from 2 to 3%	745,000
\$730,000, 2003 School Improvement general obligation bonds payable in annual installments through May 1, 2018; interest from 3 to 4.7%	<u>565,000</u>
	<u><u>\$1,459,127</u></u>

Capital lease obligations consist of 15 leases for school busses, computer equipment, portable buildings, and other equipment, with annual installments through 2012.

The Voluntary Retirement Incentive Payable includes remaining FICA payments on behalf of certain teachers under the 2000 and 2001 year ESP plans, and will end September 1, 2010.

Severance pay is generally vested after 15 years of service and is accumulative. Upon retirement, the employee will be paid a severance based on length of service at varying rates depending on employee classification.

Sick pay is vested and accumulative. Upon retirement, the employee will be paid their unused sick days at the rate of \$25 per day.

The voluntary retirement incentive payable, severance pay and sick pay are generally liquidated by the general fund.

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

The annual requirements to service the bonds, capital leases and voluntary retirement incentive are as follows:

Years Ending	Bonds		Capital leases		Voluntary Retirement Incentive	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 195,512	\$ 47,648	\$ 212,637	\$ 20,782	\$ 11,246	\$ -
2010	211,249	42,590	132,561	10,146	4,819	-
2011	217,023	36,442	86,292	4,574	4,152	-
2012	222,833	29,681	35,813	1,022	-	-
2013	297,510	22,182	-	-	-	-
2014-2018	315,000	44,830	-	-	-	-
	<u>\$ 1,459,127</u>	<u>\$ 223,373</u>	<u>\$ 467,303</u>	<u>\$ 36,524</u>	<u>\$ 20,217</u>	<u>\$ -</u>

The District has a short-term state aid note of \$2,200,000 included as a liability in the general fund as of June 30, 2008. The note carries an interest rate of 3.68% and is due August 20, 2008. A summary of short-term note activity follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Short-term notes payable	\$ 2,400,000	\$ 2,200,000	\$ 2,400,000	\$ 2,200,000

## IV. OTHER INFORMATION

### A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on July 1 by seven Township governments whose boundaries include property within the District and are due on September 15. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties involved.

# NORTHWEST SCHOOL DISTRICT

## Notes to the Financial Statements

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### C. Defined benefit pension plan

#### Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

#### Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$2,552,523, \$2,705,996 and \$2,730,586, respectively, equal to the required contributions for each year.

#### Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

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## COMBINING FINANCIAL STATEMENTS

**NORTHWEST SCHOOL DISTRICT**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

	<b>Special Revenue</b>				<b>Debt Service</b>		<b>Total Nonmajor Governmental Funds</b>
	<b>Child Care</b>	<b>Book- Store</b>	<b>Food Service</b>	<b>Athletic</b>	<b>1990 Debt</b>	<b>Durant Debt</b>	
<b><u>ASSETS</u></b>							
<b>Assets</b>							
Cash and cash equivalents	\$ 150	\$ -	\$ 1,000	\$ 6,600	\$ 19,304	\$ -	\$ 27,054
Investments	72,028	6,368	13,797	59,649	-	-	151,842
Due from other governmental units	-	-	75,860	-	-	149,127	224,987
Inventories	-	-	63,863	-	-	-	63,863
<b><u>TOTAL ASSETS</u></b>	<b>\$ 72,178</b>	<b>\$ 6,368</b>	<b>\$ 154,520</b>	<b>\$ 66,249</b>	<b>\$ 19,304</b>	<b>\$ 149,127</b>	<b>\$ 467,746</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
<b>Liabilities</b>							
Deferred revenue	\$ 17,192	\$ -	\$ -	\$ -	\$ -	\$ 149,127	\$ 166,319
Total liabilities	17,192	-	-	-	-	149,127	166,319
<b>Fund balances</b>							
Reserved for inventories	-	-	63,863	-	-	-	63,863
Reserved for debt service	-	-	-	-	19,304	-	19,304
Unreserved and undesignated	54,986	6,368	90,657	66,249	-	-	218,260
Total fund balances	54,986	6,368	154,520	66,249	19,304	-	301,427
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 72,178</b>	<b>\$ 6,368</b>	<b>\$ 154,520</b>	<b>\$ 66,249</b>	<b>\$ 19,304</b>	<b>\$ 149,127</b>	<b>\$ 467,746</b>

**NORTHWEST SCHOOL DISTRICT**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2008**

	Special Revenue				Debt Service		Total Nonmajor Governmental Funds
	Child Care	Book- Store	Food Service	Athletic	1990 Debt	Durant Debt	
<b>Revenues</b>							
Local sources:							
Other local sources	\$ 206,081	\$ 3,473	\$ 584,889	\$ 126,590	\$ 804	\$ -	\$ 921,837
State sources	136,462	-	49,561	-	-	-	186,023
Federal sources	2,617	-	497,134	-	-	-	499,751
Total revenues	345,160	3,473	1,131,584	126,590	804	-	1,607,611
<b>Expenditures</b>							
Athletics	-	-	-	382,664	-	-	382,664
Bookstore	-	2,854	-	-	-	-	2,854
Child care activities	355,016	-	-	-	-	-	355,016
Food service	-	-	1,093,029	-	-	-	1,093,029
Capital outlay and maintenance	3,493	-	275	15,438	-	-	19,206
Total expenditures	358,509	2,854	1,093,304	398,102	-	-	1,852,769
Revenue over (under) expenditures	(13,349)	619	38,280	(271,512)	804	-	(245,158)
<b>Other financing sources (uses)</b>							
Transfers in	-	-	-	280,569	-	-	280,569
Net change in fund balances	(13,349)	619	38,280	9,057	804	-	35,411
Fund balance, beginning of year	68,335	5,749	116,240	57,192	18,500	-	266,016
<b>Fund balance, end of year</b>	<b>\$ 54,986</b>	<b>\$ 6,368</b>	<b>\$ 154,520</b>	<b>\$ 66,249</b>	<b>\$ 19,304</b>	<b>\$ -</b>	<b>\$ 301,427</b>



## APPENDIX

**NORTHWEST SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Approved Grant Award/ Grant Amount</b>	<b>Prior Year Expenditures</b>	<b>Accrued/ (Deferred) Revenue July 1, 2007</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts</b>	<b>Accrued/ (Deferred) Revenue June 30, 2008</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>								
<b>Passed-Through Michigan Department of Education:</b>								
2006-07 Title 1, Part A	84.010	061530-0607	\$ 36,453	\$ 36,453	\$ -	\$ -	\$ -	\$ -
2006-07 Title 1, Part A	84.010	071530-0607	469,644	400,664	-	-	-	-
2007-08 Title 1, Part A	84.010	081530-0708	595,048	-	-	571,954	503,288	68,666
<b>Total</b>			<b>1,101,145</b>	<b>437,117</b>	<b>-</b>	<b>571,954</b>	<b>503,288</b>	<b>68,666</b>
2007-08 Service Provider Self Review	84.027	080440-0708	5,000	-	-	782	-	782
<b>Total</b>			<b>5,000</b>	<b>-</b>	<b>-</b>	<b>782</b>	<b>-</b>	<b>782</b>
2007-08 Title V	84.298	070250-0607	50	50	25	-	25	-
2007-08 Title V	84.298	080250-0708	708	483	483	-	483	-
2007-08 Title V	84.298	080250-0708	908	-	-	893	893	-
<b>Total</b>			<b>1,666</b>	<b>533</b>	<b>508</b>	<b>893</b>	<b>1,401</b>	<b>-</b>
2006-07 Technology Literacy Challenge Grant	84.318	064290-0607	3,188	3,188	36	-	36	-
2007-08 Technology Literacy Challenge Grant	84.318	084290-0708	9,765	-	-	8,695	3,861	4,834
<b>Total</b>			<b>12,953</b>	<b>3,188</b>	<b>36</b>	<b>8,695</b>	<b>3,897</b>	<b>4,834</b>
2006-07 Improving Teacher Quality	84.367	070520-0607	123,435	97,910	-	-	-	-
2006-07 Improving Teacher Quality	84.367	060520-0607	16,774	16,774	-	-	-	-
2007-08 Improving Teacher Quality	84.367	080520-0708	152,565	-	-	132,630	93,557	39,073
<b>Total</b>			<b>292,774</b>	<b>114,684</b>	<b>-</b>	<b>132,630</b>	<b>93,557</b>	<b>39,073</b>
<b>Subtotal passed-through State</b>			<b>1,413,538</b>	<b>555,522</b>	<b>544</b>	<b>714,954</b>	<b>602,143</b>	<b>113,355</b>
<b>Passed-Through Jackson County Intermediate School District:</b>								
Drug Free Schools	84.186	07-08	2,327	1,367	-	2,327	2,327	-
<b>Subtotal passed-through JCISD</b>			<b>2,327</b>	<b>1,367</b>	<b>-</b>	<b>2,327</b>	<b>2,327</b>	<b>-</b>
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>1,415,865</b>	<b>556,889</b>	<b>544</b>	<b>717,281</b>	<b>604,470</b>	<b>113,355</b>

**NORTHWEST SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Approved Grant Award/ Grant Amount</b>	<b>Prior Year Expenditures</b>	<b>Accrued/ (Deferred) Revenue July 1, 2007</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts</b>	<b>Accrued/ (Deferred) Revenue June 30, 2008</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>								
<b>Passed-Through Michigan Department of Education:</b>								
<b>National School Lunch Program -</b>								
2006-07 Section 4	10.555	071950	\$ 5,693	\$ 6,149	\$ -	\$ 5,693	\$ 5,693	\$ -
2007-08 Section 4	10.555	081950	41,242	51,433	-	41,242	41,242	-
<b>National School Lunch Program -</b>								
2006-07 Section 11	10.555	071960	32,628	29,561	-	32,628	32,628	-
2007-08 Section 11	10.555	081960	229,328	263,400	-	305,188	229,328	75,860
<b>Total</b>			<b>308,891</b>	<b>350,543</b>	<b>-</b>	<b>384,751</b>	<b>308,891</b>	<b>75,860</b>
<b>National School Breakfast Program -</b>								
2006-07 Breakfast	10.553	071970	7,624	6,935	-	7,624	7,624	-
2007-08 Breakfast	10.553	081970	45,910	57,312	-	45,910	45,910	-
<b>Total</b>			<b>53,534</b>	<b>64,247</b>	<b>-</b>	<b>53,534</b>	<b>53,534</b>	<b>-</b>
2006-07 Childcare Food Program	10.558	071920	540	1,057	-	540	540	-
2007-08 Childcare Food Program	10.558	081920	2,077	3,078	-	2,077	2,077	-
<b>Total</b>			<b>2,617</b>	<b>4,135</b>	<b>-</b>	<b>2,617</b>	<b>2,617</b>	<b>-</b>
<b>Direct Award:</b>								
<b>Food Distribution</b>								
Entitlement Commodities	10.550		56,110	80,509	-	56,110	56,110	-
Bonus Commodities	10.550		2,739	-	-	2,739	2,739	-
<b>Total</b>			<b>58,849</b>	<b>80,509</b>	<b>-</b>	<b>58,849</b>	<b>58,849</b>	<b>-</b>
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>423,891</b>	<b>499,434</b>	<b>-</b>	<b>499,751</b>	<b>423,891</b>	<b>75,860</b>
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 1,839,756</b>	<b>\$ 1,056,323</b>	<b>\$ 544</b>	<b>\$ 1,217,032</b>	<b>\$ 1,028,361</b>	<b>\$ 189,215</b>

- The accounting policies used in preparing this schedule conform to generally accepted accounting principles applicable to governments.  
The District utilized the modified accrual basis of accounting in preparing the Schedule.
- Expenditures in this Schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to MDE.
- Management has utilized the Grant Section Auditors Report (R7120) in preparing this Schedule.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

 *an independent member of*  
**BAKER TILLY**  
**INTERNATIONAL**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

October 8, 2008

Board of Education  
Northwest School District  
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***NORTHWEST SCHOOL DISTRICT*** as of and for the year ended June 30, 2008, and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Northwest School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. Our report did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of the Northwest School District in a separate letter dated October 8, 2008.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Northwest School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

October 8, 2008

Board of Education  
Northwest School District  
Jackson, Michigan

**Compliance**

We have audited the compliance of **NORTHWEST SCHOOL DISTRICT** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Northwest School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northwest School District's management. Our responsibility is to express an opinion on Northwest School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwest School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northwest School District's compliance with those requirements.

In our opinion, Northwest School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

## **Internal Control Over Compliance**

The management of Northwest School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northwest School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Northwest School District's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Northwest School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

# NORTHWEST SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

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### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes X no

Significant deficiency(ies) identified  
not considered to be material weaknesses?

\_\_\_\_\_ yes X none reported

Noncompliance material to financial statements  
noted?

\_\_\_\_\_ yes X no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes X no

Significant deficiency(ies) identified  
not considered to be material weaknesses?

X yes \_\_\_\_\_ none reported

Type of auditors' report issued on compliance  
for major programs:

Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)?

X yes \_\_\_\_\_ no



# **NORTHWEST SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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### **SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

<b><u>CFDA Number(s)</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	<u>  X  </u> yes <u>      </u> no
--	-----------------------------------

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters were reported.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **Finding 2008-1 Free and Reduced Meal Eligibility**

**Program:** CFDA 10.553 – 10.555 – Child Nutrition Cluster

**Criteria:** The Michigan Department of Education 2007-2008 School Auditing Manual states that all eligibility determinations, including applications review, actual determination if the child's household meets the income eligibility limits for free and reduced price meals, and the signature approval on the application be performed by a district employee, not a food service management company employee.

**Condition:** The free or reduced meal eligibility determination is currently not performed by a District employee.

**Cause:** The District relies on the food service management company to perform the free or reduced meal eligibility determination.

# **NORTHWEST SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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**Effect:** As a result of this condition, the District is not complying with the requirements as stated by the Michigan Department of Education.

**Recommendation:** We recommend that the District establish procedures to ensure that a district employee performs the determination of the household income limits, the eligibility determination and the required approval.

**View of Responsible Officials:** The District will initiate procedures to provide for a representative of Northwest Schools to approve eligibility determination and verification documents.

### **SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS**

No matters were reported.

\* \* \* \* \*

# NORTHWEST COMMUNITY SCHOOLS

4000 Van Horn Road  
Jackson, Michigan 49201  
(517) 569-2247 Fax (517) 569-2395  
www.nsd.k12.mi.us



"A Proud Heritage – A Promising Future"

Emily J. Kress  
Superintendent

---

September 29, 2008

Rehman Group  
Attn: David Fisher, CPA  
675 Robinson Road  
Jackson, Michigan 49203

Dear Mr. Fisher

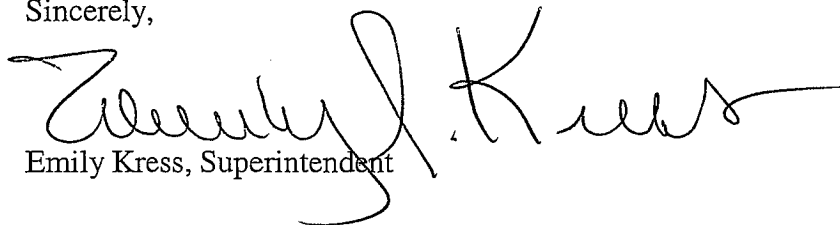
As part of the 2007-2008 annual audit, your firm noted a small problem during the Single Audit portion of the audit work. The small problem discovered was that our food service management company employees completed the sole review and approval of free & reduced meal eligibility applications for the fiscal year ending June 30, 2008.

Normally, the food service management company completes the initial review and eligibility determination. Then the business office, on behalf of the Superintendent, reviews the initial eligibility determination done by the food service management company. The business office then gives the applications formal District approval. Because of medical leaves during the school year, this process was not followed during the 07-08 school year.

Our corrective action plan for this Single Audit finding is as follows. The business office and the food service management company meet once a month to review the financial status of that department. During these monthly meetings, we will review and approve the applications together to ensure that the requirements for free and reduced meal eligibility are fulfilled.

If you have any questions, please call Laurie Lewis, Budget & Finance Supervisor at 517-569-2247 ext. 224. Thank you for your attention in this matter.

Sincerely,



Emily Kress, Superintendent

EJK/ll



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
UNDER SAS NO. 114**

October 8, 2008

To the Board of Education of the  
Northwest School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Northwest School District* (the “District”) for the year ended June 30, 2008, and have issued our report thereon dated October 8, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated July 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District’s compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 17, 2008.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements identified during the audit.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 8, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Northwest School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

**Northwest School District**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2008**

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In planning and performing our audit of the financial statements of the Northwest School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

**Other Matters**

**Purchase orders**

The District has a policy that purchase orders be prepared and approved before a purchase is made. We noted several instances where the purchase order was prepared on or after the date of invoice from the vendor or contractor. In the future, we recommend that purchase orders be prepared and approved before the item or service is ordered, in order to preserve the integrity of the purchase order system.

# **Northwest School District**

## **Comments and Recommendations (Concluded)**

**For the Year Ended June 30, 2008**

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### **Cash receipts – food service**

The food service department maintains control of the daily cash receipts for each school. At the end of each day, the cash registers are counted and verified to the daily cash report for each cashier. We noted there was no indication of who the cashier was for the day and no indication of the verification/agreement of the cash to the daily cash report. To strengthen internal controls over the cash receipts, we recommend that the cashier and the person who performs the verification sign and date each day's daily cash report.

### **Child care receipts procedures**

The Child Care Manager software program which is utilized to control the Child Care program cash receipts produces a summary of cash and checks received. This weekly form should be initialed and dated by the Secretary and Director after the cash is agreed/reconciled to the total amount on the weekly report before being transferred to the central office.

Presently, there is no independent review of delinquent accounts by any individual outside of the child care program. We recommend that a listing of delinquent accounts be furnished to the central office monthly, and any accounts to be written off should be approved by the Superintendent.

### **Bank and investment account reconciliations**

Presently, the Budget and Finance Supervisor is responsible for reconciling all bank and investment accounts. The Superintendent reviews the completed reconciliations for the general bank account only. We recommend that the review process include all other bank accounts, and investment accounts in order to enhance the internal controls in this area.

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